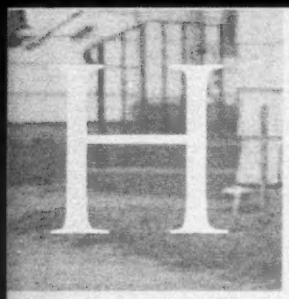

HOUSING MARKET OUTLOOK

Halifax

Canada Mortgage and Housing Corporation

VOLUME 4 EDITION 1
SPRING 2003

Total Housing Starts To Remain Above 3,000 This Year

Total annual housing starts are forecast to hover near the 3,000 mark over the next two years, declining only moderately from the fifteen year high of 3,310 starts last year. A significant drop in single-detached housing starts will more than offset a slight increase in multiple unit starts, resulting in the forecast decline in total starts. A return to balanced resale market conditions is expected to precipitate weaker demand for new single family home building while deteriorating home ownership affordability conditions and growth in the number of small households in Metro that will act in concert to propel multiple unit demand.

Both single and multiple unit starts posted exceptional year over year growth rates last year at 44 per cent and 38 per cent respectively. In the single family home market, very tight resale market conditions encouraged many buyers to opt for the expanded choice offered by new home construction, forcing contractors to scramble all year to keep up with orders. Meanwhile, resilient rental demand, demographic trends and price pressures conspired to accelerate semi-detached, row and apartment project construction last year.

Single starts to slide, multiples will hold fast

Very low mortgage rates were the main influence behind the exceptional growth in the residential construction market last year stimulating not only single family home building, but also semi-detached, row, townhouse and condominium apartment construction as well. With mortgage rates forecast to rise steadily over the next two years, overall ownership demand is forecast to decline, but some segments

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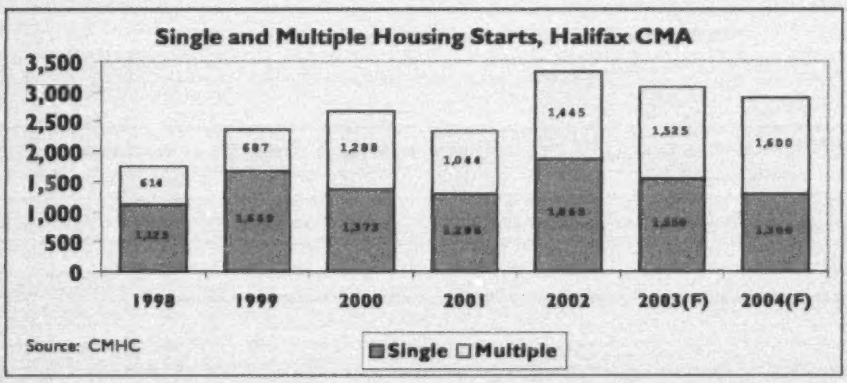

CMHC SCHL

HOME TO CANADIANS

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of the Metro residential construction industry are expected to remain healthier than others. While single starts are expected to drop by approximately 200 units this year and 350 units next year from the lofty peak of 2002, semi-detached, row, townhouse and condominium apartment starts are forecast to remain at or near recent peak levels for two main reasons.

First, these home types generally offer more affordable ownership option than the traditional single-detached home for those who choose to live close to the urban center of Metro. With home ownership carrying cost increases expected to outpace household income growth over the forecast horizon buyers are likely to become increasingly price sensitive. Consequently, the 'middle density' segment of the Metro housing market and the rapidly expanding condo market- which are both relatively underdeveloped compared with other large cities in Canada- are ripe for diversification and further growth.

Second, key demographic trends in Metro Halifax include not only an aging baby boom population but also a distinct shift from a preponderance of traditional larger household of two adults and two children to more small households of single persons, younger and older couples without children, and single parent families. In fact, 2001 Census data show that 54 per cent of the 144, 435 households in Metro are either single persons or couples without children. For a variety of financial and lifestyle-related reasons, smaller households often choose 'ownership multi's' and the convenience, security, price advantage and reduced maintenance burden associated with these structure types.

Furthermore, strong growth in rental demand over the next two years is expected to stimulate increases in rental starts in both 2003 and 2004. In combination with a sustained high level of ownership multiple starts over this period and a downturn in single-detached home construction, the local residential construction market is poised to post more multiple starts than single starts in 2004- a characteristic that this market has not experienced since 1991.

Construction costs still rising

New house prices are forecast to increase significantly once again in 2003 but much more modestly next year for reasons related to both demand and supply. With total starts forecast to hover around the 3,000 mark over the next two years, tight construction labour market conditions will continue to spur construction cost increases. This will be complemented by accelerating building materials prices in 2003 (due to what is anticipated to be a temporary period of high energy costs and high inflation) and upward momentum in land costs related to the implementation of development charges on serviced building lots in the municipality. Finally, the move-up buyer is expected to be the driving force in the single-detached market in 2003-2004, which will result in a shift toward larger and more expensive homes being sold. As a result, average new house price is forecast to rise nine per cent this year and a much more tepid one to two per cent in 2004.

In summary, total housing starts are forecast to decline 6.3 per cent in 2003 and 6.5 per cent in 2004 as declines in single starts more than offset increases in multiple starts. While tight resale market conditions will continue to support a high level of single starts in first half of 2003, activity will gradually weaken thereafter as home ownership demand softens. However, demographic trends and ownership affordability conditions will stimulate further growth in multiple starts (both ownership and rental) in 2003 and in 2004. Furthermore, rising construction costs and sales of higher quality homes will result in continued growth in average new home prices.

Highlights

- **Rising mortgage rates will cool housing market activity in the second half of 2003 and through 2004.**
- **A significant amount of home ownership demand has been brought forward due to an unexpected and prolonged period of very low mortgage rates over the past 18 months, this will dampen sales over the next two years.**
- **The renovation market will continue to grow strongly as new and long standing home owners invest in projects to accommodate changing lifestyles and to increase future potential resale value.**
- **Rental demand is forecast to steadily increase over the forecast horizon due to household formation among the baby boom echo generation, deteriorating home ownership affordability, and an expanding student population.**

Economic Overview

Improvement on the distant horizon

Look for economic conditions in Metro Halifax to begin to improve late this year and throughout 2004 as a strong rebound in non-residential construction investment compensates for slower growth in consumer spending. Over the past eighteen months the local economy has been 'out of synch', with impressive growth in consumer spending but very little business investment. Local housing market activity (including related retail expenditures) and auto sales have been the lone bright spots as other local industrial sectors such as trade, tourism, information technology and commercial construction are enduring a period of weakness.

Investment to relieve weary consumers

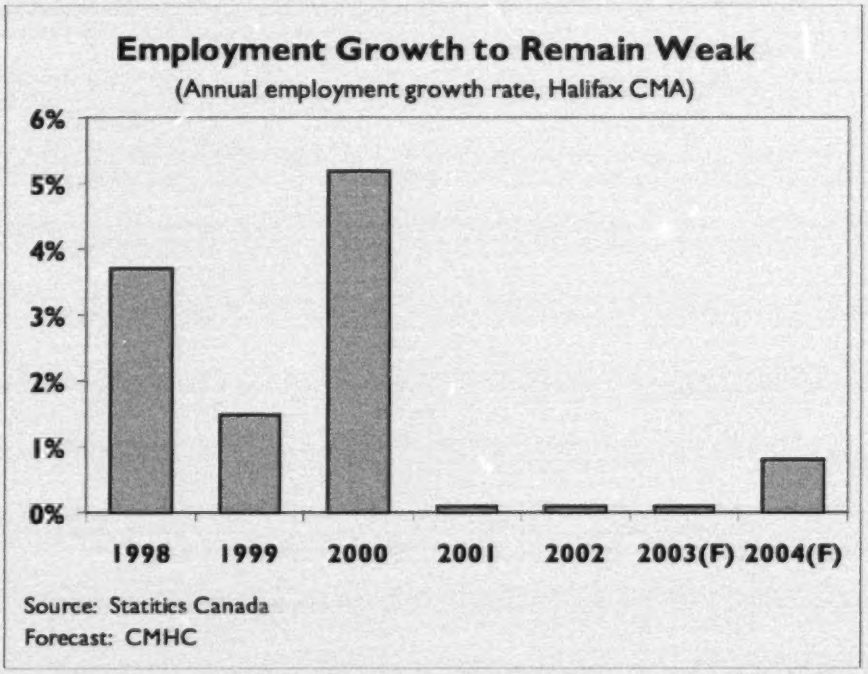
While consumer confidence remains strong, uncertainty about the future of the local economy is growing. The Metro Halifax labour market is in the midst of a prolonged slump, with no employment growth over the past two years. Optimism about the potential of the offshore energy sector is fading due to recent announcements such as Encana's decision to indefinitely halt the $1.2 billion Deep Panuke project, El Paso's closing of their Halifax office and shelving of the $2 billion pipeline project, and poor exploratory drilling results in recent months. More recently, the port has been affected by security concerns and Halterm's loss of a key client (ACL). Furthermore, the local transportation and tourism sectors have been shaken by Air Canada's filing for bankruptcy protection and the potential impact this may have on the remaining employees of Halifax-based *Jazz*.

On the upside, non-residential construction investment is expected to improve significantly over the next two years with the Harbour Clean-Up project, airport renovations, the Oland Brewery expansion, education facility construction and Highway 101 and 103 twinning. Furthermore, while housing market activity and retail sales are expected to slow from the blistering pace of 2002, both will remain very vibrant and healthy in 2003-2004.

Nevertheless, consumer confidence (and therefore, spending) is expected to decline this year as job growth remains very tepid, inflation takes a larger bite out of Haligonians' income and interest rates continue their upward march. Prospects for improvement in 2004 appear brighter as current geopolitical tensions ease and the US economy begins to recover from a prolonged period of weakness.

Mortgage rates on the rise

The outlook for mortgage rates in 2003 reflects anticipated continuation of economic growth in Canada and related concern about inflation, as well as an expected economic recovery in the United States later this year. Consequently, the one year mortgage rate is forecast to be in the 5.00 to 7.06 per cent range, the three year mortgage rate is forecast to be in the 6.07 to 7.90 per cent range and the five year mortgage rate is forecast to be in the 6.60 to 8.42 per cent range in through the end of 2004.



Rental Market Outlook

Further tightening expected

Remarkable resilience may be the best way to characterize the performance of the Metro Halifax rental market over the past year as it has weathered the recent storm of home buying activity and emerged in excellent condition. Despite the addition of 630 new rental units to the rental universe in 2002, the vacancy rate declined slightly to 2.7 per cent.

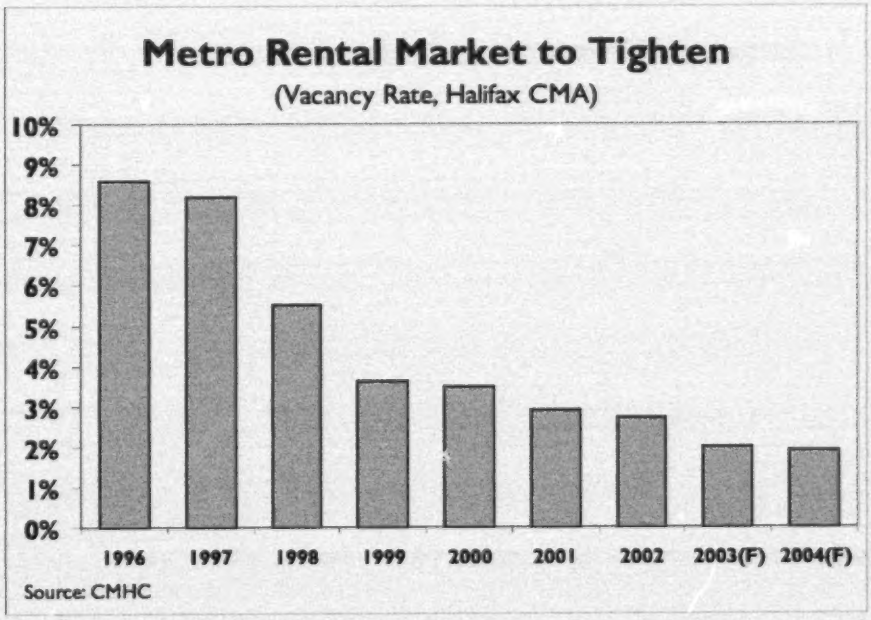
Several factors are expected to strengthen rental demand in Metro over the next two years, and effect an increase in new rental construction. First, mortgage rates are forecast to rise steadily through 2004, resulting in a significant increase in home ownership carrying costs. With household income growth expected to lag house price growth once again this year, home ownership affordability conditions in Metro are expected to deteriorate, keeping more renter households in tenancy in 2003.

Young households to drive demand growth

Also, the "double cohort" of high school graduating classes in Ontario this June (due to the phasing out of Grade 13) is expected to generate an increase in student rental demand over the next five years. With five universities and three community college campuses in Metro, the city has traditionally been populated with a large share of post-secondary students, including many from Ontario. This will continue to be the case next year as Metro campuses (including the recent announcement of a new college campus to be built in Dartmouth) accommodate these expanding enrolments.

Among the more mature rental market segment of empty nesters and retirees, demand is expected to soften over the next two years as more households opt for owning an apartment rather than renting one. The impressive appreciation of condominiums in recent years continues to encourage this a growing cohort of mortgage-free, older households looking for the apartment lifestyle to buy a condo rather than rent a comparable apartment. This decision is made easier with the increasingly unattractive alternative of investing in volatile and poor-performing equity markets. As a result, rental demand from this group is expected to weaken next year as more households opt to purchase rather than rent an apartment.

In summary, local rental demand is forecast to grow strongly over the next two years. Increasing demand from younger households coming to the city for school or work, and those of more modest incomes who will find it more difficult to afford home ownership will offset a decline in demand from aging baby boomers who are expected to show an increasing preference for condos. While developers are expected to respond by starting over 1,500 new rental apartments over the next two years, many of these units will not be available for lease until 2004. Consequently, the Metro rental market is expected to experience a significant tightening this year with the vacancy rate forecast to decline to 2.0 per cent. New rental supply conditions are expected to begin to improve through 2004, but with demand continuing to grow the vacancy rate is expected to dip very slightly again to 1.9 per cent.



Resale Market Outlook

The turning point has come

After turning in another stellar performance of sales and price growth last year, the resale market is poised for a significant slowdown through 2004. MLS® sales are forecast to fall 9 per cent this year and another 5 per cent in 2004, while average sale price growth is expected to decelerate to 6 per cent this year and 2 per cent in 2004. While there are several factors that will collude to directly cause this downturn, recent historically low mortgage rates and anticipated rate increases are the root cause.

Last year's home buying season started early and began with a shortage of homes listed for sale. This supply shortage did not improve over the course of the year as exceptional sales activity and no significant growth in new monthly MLS® listings kept the inventory of existing homes at very low levels. However, 33 per cent growth in the number of newly built homes listed through MLS® last year provided sufficient choice for homebuyers to allow total MLS® sales to increase almost 8 per cent to 6,682 transactions- the third annual sales record in the past four years. However, there was no growth at all in MLS® sales of only *existing* homes last year.

With a persistent shortage of active listings and record levels of sales, seller's market conditions which prevailed at the beginning of last year tilted progressively further in favour of the seller throughout the year. In combination with a significant increase in new homes being sold through MLS® last year (which are typically more expensive than existing homes), average MLS® sale price grew 11 per cent to $148,737- the highest annual average price increase since 1984. This rate of price growth was characteristic of both the *existing* and *newly built* homes sold through MLS® last year.

Rising rates will dampen demand

The driving force behind the exceptional demand for home ownership last year was very low mortgage rates that unexpectedly persisted throughout the entire year. These low rates attracted buyers to the market and *partially* offset the rapid growth in prices, dampening what would otherwise have been substantial increases in monthly mortgage carrying costs. However, mortgage rates have already begun what is anticipated to be a steady upward march over the next 18 to 24 months. Consequently, the average monthly mortgage payment[2], which was approximately $990 last year, is expected to climb to $1,050 this year and to $1,180 in 2004 based on our forecast for mortgage rate increases and MLS® average sale price growth.

The trend in mortgage rates will dampen housing demand over the next two years in two specific ways. First, mortgage rates unexpectedly remained at historically low levels throughout last year- a prolonged period of time of irresistible home buying conditions. As a result, many households accelerated their purchase plans, brining demand forward into 2002 which would otherwise would have occurred this year or next year. This will result in lower levels of aggregate demand in 2003 and 2004. Second, while average MLS® sale price growth is forecast to moderate over the next two years, mortgage rates are expected to rise steadily, resulting in growth in monthly mortgage carrying costs that is well ahead of household income growth at 6 per cent and 12 per cent in 2003 and 2004 respectively. This deterioration in home ownership affordability conditions will certainly curb resale market demand, especially among first time homebuyers. Consequently, expect 500 to 600 fewer MLS® sales this year and another decline of approximately 300 sales in 2004.

Price growth rate will slow

Weakening home ownership demand and deteriorating affordability conditions will slow down the *rate* of price growth, but expect to see average prices continue to increase in both 2003 and 2004. However, it will likely be 6 months to a year before the market reverts to balanced condition and relaxes the upward pressure on prices, so much of this anticipated rise in prices will occur this year. Furthermore, as mortgage rates climb, resale market demand is expected to shift increasingly to the move-up buyer, providing further upward momentum in resale market prices as more expensive homes are sold. Consequently, expect annual average MLS® price to reach $157,500 this year and to surpass the $160,000 mark in 2004.

In short, the Metro resale market is forecast to ease significantly from the breakneck pace of last year as the prolonged period of low mortgage rates in 2002 and anticipated increases in mortgage rates through 2004 result in weaker home ownership demand over the forecast period.

[2] annual average MLS® sales price, 5% down payment, 5 year posted mortgage rate, 25 year amortization period

MLS® Existing (Resale) Home Sales Activity by Area

	FIRST QUARTER											
	2002				2003				Per Cent Change			
SUBMARKET	Sales	New Listings	Average Sale Price	Average Days on Market	Sales	New Listings	Average Sale Price	Average Days on Market	Sales	New Listings	Average Sale Price	Average Days on Market
Bedford - Hammonds Plains	103	176	$184,606	61	86	180	$203,369	62	-16.5%	2.3%	10.2%	1.1%
Dartmouth City	353	448	$117,006	56	270	428	$124,283	44	-23.5%	-4.5%	6.2%	-22.1%
Fall River - Beaverbank	49	117	$132,437	61	63	143	$131,221	86	28.6%	22.2%	-0.9%	40.5%
Halifax City	231	329	$169,565	49	210	306	$188,796	57	-9.1%	-7.0%	11.3%	14.5%
Halifax County East	68	117	$115,077	132	51	137	$123,165	88	-25.0%	17.1%	7.0%	-33.0%
Halifax County Southwest	69	131	$115,357	85	81	111	$138,069	70	17.4%	-15.3%	19.7%	-17.6%
Sackville	124	169	$103,515	43	88	140	$112,432	40	-29.0%	-17.2%	8.6%	-7.4%
Total	997	1,487	$135,002	61	849	1,445	$148,786	57	-14.8%	-2.8%	10.2%	-6.9%

Source: Nova Scotia Association of Realtors

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Note: Existing home sales activity includes resale data only and excludes new home sales.

Cenus Highlights - *Working for a living...*

Earnings

According to Statistics Canada, just over 204,700 people in the Halifax Census Metropolitan Area (CMA) reported receiving employment income during 2000. Average earnings in Halifax were $30,614, which was just over $1,100 below the national average of $31,757 for all earners, but it was the highest average earnings of any urban area in the province. Between 1990 and 2000, average earnings when adjusted for inflation grew by only 4.8 per cent in Halifax compared with 7.3 in the nation as a whole.

Almost 56 per cent of all earners in Halifax worked on a full-time basis for the entire year in 2000. These workers' average earnings were $41,481, slightly lower than the national average of $43,231

Location

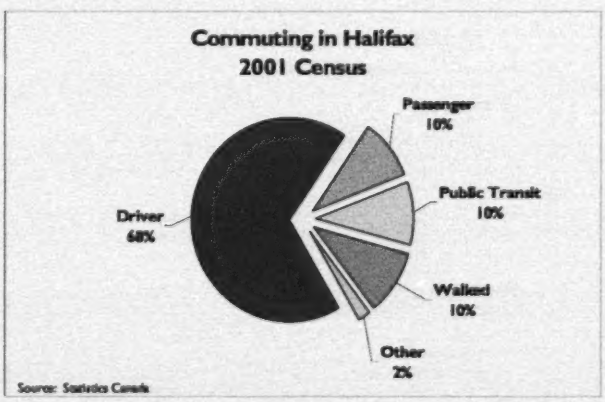
There were just under 175,000 people who worked in the Halifax CMA in 2001, including both local residents and workers who commuted into the region. This figure is up 7.6 per cent from the last Census in 1996.

Commuting

On a daily basis, Halifax imported more workers than any other city in eastern Canada, with a net gain of just over 9,500 people. This was the difference between the 13,000 workers who commuted to the city for their jobs and the 3,500 people who left the region to work elsewhere in the province on a daily basis. In fact, on a normal day about 1,200 people made the hour long drive down Highway 102 from Truro into Halifax each workday.

Halifax was in Canada's top five major cities for the lowest proportion of people taking their car to work. There were about 68 per cent of workers living in Halifax who drove to work in 2001, which was up slightly from the 67 per cent who drove in 1996. Car-pooling was down in 2001 with about 9.6 per cent of Haligonians hitching a ride to work as passengers, from 1996's figure of 10.5 per cent.

Around 10 per cent of workers in Halifax used Metro Transit to get to their jobs in 2001, down slightly from 11 per cent in 1996. On the other hand, people who walked to work in Halifax on a regular basis increased by half a percentage point in 2001 to 10.3 per cent, up from 9.8 per cent five years earlier. Almost 10,500 workers or 6 per cent of the employed workforce in Halifax did not have to worry about traffic, bus schedules or the weather since they worked at home in 2001. This was an increase from 7,550 home-based workers a decade earlier.



Feature: Consumer Intentions

Halifax Consumer Intentions to Buy a Home

In the summer of 2002, CMHC asked over 4,300 Haligonians about their intentions to purchase a home over the next 12 months in our Survey of Consumer Intentions to Buy or Renovate a Home. What the survey found was that 10 per cent of households in Halifax intend to buy a home by mid-2003. This includes 6 per cent who are ready to buy (high chance of buying) and 4 per cent who are looking to buy (about a 50/50 chance of buying). In other words, about one out of every ten households in Halifax is in the market for buying a home.

Younger Haligonians make up over half of potential homebuyers with 54 per cent of intenders under the age of 35. In fact, the median age in Halifax of someone in the market for a home is 33 years old. Younger buyers are also a growing segment of the market with the proportion of potential home buyers under age 35 increasing by 7 per cent over 2001's results. As for the older age groupings, about 1 out of every 4 potential buyers is between 35 and 44, and the 45 to 54 year old age cohort accounts for just over 1 in 10 potential purchasers. Seniors aged 55 and over represent only 7 per cent of potential future home buying activity.

In line with the overall demographic trend of declining household size, singles (16 per cent) and two-person households (29 per cent) make up almost half of the home buying market in Halifax. In addition, just over half of intenders do not have children under 18 living at home. The combination of these two factors will likely lead to increased interest in condominium, row and smaller single-detached housing product in the future.

Renters continue to represent the majority of potential home buyers in Halifax. Of those Haligonians in the market for a home, 65 per cent currently rent while the remaining 35 per cent own their home. These figures coincide with the large number of younger intenders in the under 35 category as this age group typically exhibits the highest incidence of renting.

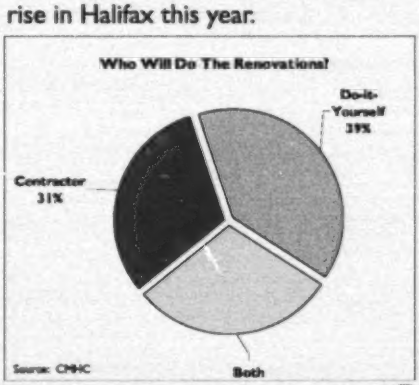
The resale or existing home market is where that bulk of intenders in Halifax are looking to make their purchase (57 per cent intending to buy a pre-owned home). The idea of building a home or buying a brand new home is the game plan of 35 per cent of intenders in Halifax. When asked what type of home they were looking to purchase, single detached homes were the most popular response by far at 88 per cent. Semi-detached and row housing were tied for second at 5 per cent each, followed by apartment living at 2 per cent. With respect to ownership options, the idea of condominium living appealed to about 6 per cent of intenders in Halifax.

When it comes to price, over half of Haligonians (54 per cent) in the market for a home are looking to spend less than $150,000. With such a large number of intended purchasers currently renting and looking for a more modest home, the impact of rising mortgage rates on affordability may sway the intentions of some of these first time home buyers away from making a purchase leading to a cooling of home buying activity in 2003.

Halifax Consumer Intentions to Renovate

According to the results of CMHC's Survey of Consumer Intentions to Buy or Renovate a Home, Halifax leads the nation in terms of the share of homeowners who are planning to undertake renovations valued at $1,000 or more in 2002 and 2003. With 29 per cent of homeowners in Halifax "ready to renovate" and an additional 12 per cent as "possible renovators", renovations are intended by 41 per cent of the city's homeowners. The survey results also revealed in Halifax last year that 55 per cent of homeowners spent more than $1,000 on renovations in the past year.

Homeowners in Halifax planning to renovate say they will spend on average just over $9,000 on their repair, replacement and remodelling projects in 2002 and 2003. When asked who will be doing the renovation work, just under 40 per cent of Haligonians plan to tackle the projects themselves (do-it yourselfers), 31 per cent plan to hire a contractor, and just under 30 per cent plan a bit of both (some do-it-yourself and some contracted out). Coming off a record year in resale home sales in 2002 combined with these stated intentions, renovation spending will definitely be on the rise in Halifax this year.



FORECAST SUMMARY

Metropolitan Halifax- April 2003

	2001	2002	2003 F	% change	2004 F
RESALE MARKET					
MLS® Active Listings (June peak)	2440	2274	2350	3.3%	2500
Residential MLS® Sales	6212	6687	6100	-8.8%	5800
Residential MLS® Average Price	$ 134,106	$ 148,737	$ 157,500	5.9%	$ 160,500
NEW HOME MARKET					
Total Starts	2340	3310	3100	-6.3%	2900
Single-detached	1296	1865	1650	-11.5%	1300
Multiple Unit	1044	1445	1450	0.3%	1600
Semi-detached	96	184	185	0.5%	175
Row	12	126	115	-8.7%	125
Apartment	936	1135	1150	1.3%	1300
Average New House Price (Single-detached)	$ 179,851	$ 194,547	$ 212,000	9.0%	$ 215,000
RENTAL MARKET					
Vacancy Rate	2.8%	2.7%	2.0%		1.9%
Average Rent-	$628	$658	$695	5.6%	$725
Rental Housing Starts	680	785	825	5.1%	925
ECONOMIC OVERVIEW					
Mortgage Rate- 3 year term	6.88%	6.28%	6.43%		7.64%
Mortgage Rate- 5 year term	7.40%	7.02%	7.01%		8.18%
Employed	183,733	183,983	184,250		185,750
Employment growth	0.1%	0.1%	0.1%		0.8%
Unemployment rate	6.8%	7.4%	7.2%		6.8%

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